DOCUMENT RESUME

ED 437 680 CS 510 205

TITLE	Advertising and the Economy: A Teaching Package.
INSTITUTION	Proctor and Gamble Co., Cincinnati, OH.
PUB DATE	1992-00-00
NOTE	36p.; A poster entitled, "How Crest and Its Advertising Responded to Changing Consumer Demands," is not available from EDRS.
PUB TYPE	Guides - Classroom - Teacher (052)
EDRS PRICE	MF01/PC02 Plus Postage.
DESCRIPTORS	*Advertising; *Business Communication; *Economics Education; Higher Education; Lesson Plans; *Mass Media; *Merchandising; Persuasive Discourse
IDENTIFIERS	*Advertising Education; *Advertising Industry; Commercialism; Marketing Strategies

ABSTRACT

This teaching packet is designed to enrich lessons and motivate students, and is based on real-life marketing problems. The packet includes a booklet containing background for instructors on advertising's crucial economic role and its history in the United States, eight reproducible lessons, and teaching tips for each lesson. The packet also includes a poster designed to complement the lessons. Lesson titles include: (1) "Choosing Which Wants to Satisfy"; (2) "Using Ads To Link Buyers and Sellers"; (3) "How Advertising Affects Behavior"; (4) "Using Ads To Set Products Apart"; (5) "What Ads Contribute to the Nation's Output"; (6) "How Advertising Adapts to the Business Cycle"; (7) "How Ads Fuel Economies of Scale"; and (8) "Targeting Markets for New Products." Appendixes present sample advertisements. (EF)

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ADVERTISING AND THE ECONOMY

CS 510 205

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A TEACHING PACKAGE

ADVERTISING AND THE ECONOMY

Dear Educator:

If you want to know about advertising, ask your students. They've been experts since they climbed out of their cribs. Before they could really talk, they could sing the jingles to television commercials. Before they learned their ABCs, they recognized the signs on fast-food restaurants. Advertising is what they hear between hit songs on the radio, and it's what often catches their eyes when they "channel-surf" and flip though magazines.

But advertising is far more than a beguiling mix of pictures, words and sounds. It is also—and foremost—a prime mover of the U.S. economy. You'll want your students to come to appreciate advertising's extraordinary powers as they delve into U.S. business history and economics.

That's why we have prepared this teaching package. Using it, you can help your students discover that advertising is a positive and potent economic force.

We're confident that **Advertising and the Economy** will enrich your lessons and motivate your students. From the start, we set out to base this teaching package on real-life marketing problems. To do that we've drawn heavily on the experiences of Procter & Gamble, a major manufacturer of consumer products, and on those of one of its advertising agencies, D'Arcy Masius Benton & Bowles. In 1993, P&G and DMB&B celebrated 50 years of marketing partnership.

This teaching package consists of:

- A look at advertising's crucial economic role and its history in the U.S. This opening section, which extends through page 10, is intended as background for you. However, you are encouraged to reproduce any or all of it for your students. "Nine Steps in an Advertising Campaign" may be useful if students want to try their own hands at creating an ad.
- Eight reproducible lessons on advertising and the economy.
- Teaching tips for each of the eight lessons.
- A colorful poster designed to reinforce the eight lessons in your classroom.
- Information about a free 22 minute video to accompany this package.

If you enjoy using this package, please pass it along to your colleagues in the journalism and business departments. And please return the response card. We'd appreciate hearing about your successes as well as your concerns as you share with your students the world of **Advertising and the Economy.**

Sincerely,

Carol G. Talbot
Associate Director
Educational Services
Procter & Gamble

Roy Bostock
Chairman/Chief Executive
D'Arcy Masius Benton & Bowles

Procter & Gamble and DMB&B gratefully acknowledge the educators who helped develop this teaching package. We are particularly indebted to Douglas A. Haskell, Associate Director, Center for Economic Education, University of Cincinnati, for defining economic concepts and developing teaching strategies.

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A Source of National Strength

Preparing students for today's world is no easy task. Never before have teachers been faced with such diverse experience and complex information. As educators we cannot always anticipate the challenges our students will face. But we can help them cope with challenge by giving them a sense of history and an understanding of the principles and forces that shape the U.S. economy. One of those forces is advertising, an ever-present yet seldom-examined aspect of American life. Clearly, students need to understand its role.

Advertising is key to the health of our market economy. Your students will learn why when they deal with this unit's lessons—especially Lesson 2, "To Market, to Market!"; Lesson 3, "Supply and Demand in Action"; Lesson 5, "The Ad Buck's Big Bang"; and Lesson 6, "Through Boom and Bust."

This unit will also show your students how:

• ***Advertising contributes to the success of new products.*** Since World War II there has been a steady flow of new products, from permanent-press fabrics to toothpaste in pump containers. Each week, about 30 new products appear on supermarket shelves, providing the yeast for much of our economic growth. Advertising provides consumers with information about new choices and encourages their speedy acceptance. There's more about this in Lesson 4, "Winning Market Share," and in Lesson 8, "Producer, It's Your Choice!"

• ***Advertising permits economies of scale.*** Through the mass media, businesses can spread the word about their products to millions of consumers. Access to a mass market encourages producers to invest in mass production. And with high-volume, low-unit-cost production, they can produce more goods, employ more workers, and offer lower prices to the consumer. (See Lesson 7, "Making More Cost Less.")

• ***Advertising helps support the communications industry.*** Annually in the United States, communications generate well over $100 billion in revenues through television, radio, newspapers, and magazines. The money to support these communications comes almost entirely from advertising. Without advertising, a newspaper could cost as much as five dollars. Income from commercials and print ads funds a steady flow of information and entertainment and helps ensure a press that's free from government control. Your students will learn how as they complete Lesson 5, "The Ad Buck's Big Bang," on advertising's contribution to the nation's output.

• ***Advertising is the lifeblood of the retail industry.*** From the mom-and-pop candy store to the giant supermarket chain, retailers want to stock their shelves with advertised products. National advertising encourages a high level of consumer demand and a steady flow of traffic into stores. Your students will have an opportunity to explore this concept with Lesson 1, "Consumer, It's Your Choice!"

Especially if you teach American history or economics, your students can benefit from an understanding of advertising's close association with the growth of the U.S. economy. Use the following profile and historical overview to enrich your lessons and increase your students' understanding.

Highlights from the History of Advertising

The history of advertising is as old as buying and selling. Roman merchants inscribed primitive billboards on the walls of their cities during the second century B.C. In Phoenicia, merchants employed barkers to announce wares for sale in the marketplace. Though these early forms of advertising seem primitive today, their job was the same as that of sophisticated modern ads. They informed people about what was for sale and persuaded them to buy.

Advertising took a quantum leap in the 1400s with the invention of moveable type. One of the first things off the presses was a handbill advertising a series of religious books. Small ads appeared in the many weekly newspapers of the 1600s. But with the advent of daily papers in London in 1702 and a big jump in the literacy rate, advertising became even more important. Before long, revenues from advertising were supporting a flood of papers in England.

Meanwhile, in America, thriving newspapers carried ads for tailors, cobblers, candle makers, and rum dealers. The Pennsylvania Packet and Daily Advertiser, a Philadelphia publication, ran ads for millinery right alongside the first published copy of the Constitution of the United States. Since the early days of the Republic, advertising's evolution has been remarkable.

AMERICAN ADVERTISING: THE EARLY YEARS

With the Revolution won, a youthful United States worked to develop its business and expand its economy. Merchants attracted new customers by hanging signs over shop doors and placing ads in local papers. By 1807, however, the Industrial Revolution was transforming the way products were manufactured and advertised. New technologies meant that more goods could be produced, and newly built railroads could carry those goods farther and faster. At the same time, great waves of immigration and Westward Expansion of the nation provided rapidly growing markets. Single ads in newspapers did not reach them; it took a concentrated effort to advertise the same product in the same way in many newspapers at the same time.

The need to purchase space in many publications simultaneously created the new job of advertising agent. The first of these was Volney B. Palmer, who opened shop in Boston in 1841. He soon had offices in New York and Philadelphia as well. Palmer and other early agents did not create ads or provide the many other services that agencies do today. They simply bought space in many newspapers and sold them to businesses, while collecting a commission from the sale. The first national magazines began publication during the 1860s, providing advertising agents with more opportunities.

AN AMERICAN VENTURE

In 1837, two men in Cincinnati, Ohio, pooled their $7,000 savings and set up shop making top-notch soaps and candles. Public response was good, and their business thrived. Eleven years later, the partners were earning an annual profit of $26,000. By 1867, on the thirtieth anniversary of their partnership, William Procter and James Gamble could boast of capital assets worth over $800,000.

Procter and Gamble, both immigrants to the United States, had already become an American success story by making excellent products. With the increasing use of oil lamps, candle sales declined. But a growing population, along with new public waterworks systems, indoor plumbing, and greater awareness of personal hygiene, meant that people would demand more and more soap. There was competition from other soaps, but there was plenty of room for more growth. The men wanted their company to take an even greater share of the market. Procter and

1882

Some good quick exercise, producing perspiration enough to bring the impurities to the surface of the skin, a rub with a rough towel, a scrub with Ivory Soap, a dash of cold water and she is cleansed and beautified. With nerves braced and muscles hardened, she feels that she is indeed a new woman.

1895

1918

1928

Gamble developed new and better soap products and more efficient factories to produce them. And the company relied more and more on advertising to help it compete against hundreds of other soap manufacturers.

In 1879, Procter & Gamble set up its first advertising budget, earmarking $11,000 to "post the public" about the company's premier product, Ivory Soap. Within two years of this first ad campaign, demand for Ivory had shot up so much that a new factory was required to increase production from 200,000 to 400,000 bars of soap a day.

This was the lesson they learned: If you've got something to sell, you have to spread the word.

ADVERTISING'S BENEFITS

Simply put, advertising is the way businesses talk to their potential customers about the products they make or the services they offer. Advertising informs, persuades and reminds. It tells people about a product's benefits and reminds them each time they're ready to buy. Since many good products compete in a free and open marketplace, advertising helps consumers choose the product that's right for them. But advertising doesn't work any magic. While it's the most effective and least expensive way of telling people about a product, it can't continue to sell the product to a disappointed consumer. If manufacturers don't deliver on their advertising claims, they lose customers and money.

Businesses use advertising in a lot of different ways— to introduce a new product or an improvement on an old one, to bolster the reputation of their firm, or to sway customers away from a competitor's product. Once businesses know exactly what they want to accomplish, with the help of an advertising agency, they can devise a campaign to make it happen.

ADVERTISING IVORY

Procter & Gamble placed the first ad for Ivory Soap in a national magazine called The Independent in 1882. Short on artwork and long on copy, the ad extolled Ivory's virtues for everything from washing laces and baby clothes to "all the varied uses about the house." Before long, full-page Ivory ads were appearing in magazines all over the country, and other soap makers were claiming their products were "just as good as the Ivory."

The increased demand for Ivory that advertising had sparked led to the construction of a new $1 million P&G plant —known as Ivorydale— that

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doubled production. By 1897, P&G profits exceeded $1 million.

MORE SERVICES

By the 1890s, the markets for national products were quite large, and more sophisticated businesses had budgets to reach them. Advertising agencies began to staff up to write advertising messages, create illustrations and even analyze markets. Within a decade, they were ready to offer complete campaigns from planning to placement of finished advertisements.

One of these modern firms was opened in St. Louis by Bill D'Arcy in 1906. D'Arcy started his agency with a $3,000 account from Coca-Cola, and soon counted Anheuser-Busch and General Tire among his clients. D'Arcy's business would form the base of the international firm of D'Arcy Masius Benton and Bowles, but that would take a few decades.

By the beginning of the twentieth century, advertising had established itself as one of the key factors in the competitive U.S. system. By quickly telling the world about new or improved products, advertising gives the consumer more choices to satisfy ever-changing needs.

Advertising itself changed as the years went by. Better methods were found to reproduce product pictures, first in black and white, and then in color. As the pictures improved, fewer words were needed to tell the story.

MARKET RESEARCH EMERGES

Early in the 20th century, researchers began interviewing the public to learn exactly what people liked and disliked about products, and the kind of information they expected from ads. Procter & Gamble opened one of the first consumer research departments in 1923. It probed everything from what perfume to use to scent its soap to what flavor to use in its toothpaste.

This advertising research led to the development of such products as powdered laundry soaps like Chipso and Oxydol. The new laundry powders worked hand in glove with the new automatic washing machines. Each stimulated sales of the other.

RADIO DAYS

Advertising entered the age of broadcasting in 1923 when a New York City radio station began to run brief commercials, reaching an estimated 50,000 radio sets in the NY metropolitan area. Procter & Gamble reached its share of those 50,000 homes with shows that included Crisco Cooking Talks, The Radio Homemaker's Club, and a host of daytime dramas that came to be known as "soap operas". Radio helped boost sales of P&G products, with shipments of Ivory soap nearly doubling between 1933 and 1939. Consumers listened to the radio as they did their housework, and when they shopped, they remembered the commercial messages they'd heard.

At the same time, advertising supported the growth of the broadcast media. Broadcast advertising's ability to reach millions of households created a high demand for the products being advertised, keeping production lines running and ensuring employment for untold thousands. For a while, though, the economy went into a tailspin.

THE GREAT DEPRESSION

Beginning on Black Thursday, October 24, 1929, the Great Depression brought more than a decade of high unemployment and low business activity and the worst economic slump in modern times. Between 1930 and 1933, stock prices fell about 80 percent. Banks with investments in the stock market lost huge sums of money, and individual investors were wiped out and unable to repay their bank loans and mortgages. Thousands of others were forced by the deepening depression to withdraw their savings. All of this led to the failure of about 9,000 banks. Unemployment peaked at about 25 percent in 1933. Farmers were affected, as agricultural prices fell about 50 percent. Hundreds of thousands of families were left homeless and hungry.

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With New Deal reforms initiated by President Franklin D. Roosevelt, the country slowly moved out of the depression. Meanwhile, all parts of the economy suffered. Advertising was no exception.

As businesses failed, advertising revenues declined as well, and by 1932, most advertising agencies had cut salaries and dismissed workers. Since it had served as the cheerleader for American business during the good times of the 1920s, advertising was sometimes blamed for the worsening economic conditions. A national consumer movement during the 1930s denounced advertising's sometimes-inflated claims and sought to impose government controls on advertising or to abolish it altogether. Groups such as the Consumer's Union sought to replace advertising with consumer buying guides which would publish results of product tests.

Advertisers responded by creating ads that were far less flamboyant, appealing to the consumer's need to make a little money go a long way. Crisco shortening ads offered readers recipes for "thrifty dishes." And a magazine ad that ran in 1933, during the darkest days of the depression, pictured a courting couple whose marriage plans were saved by Ivory Snow: In spite of a tight budget, they vowed to make clothes last longer by being "frugal and wise — keep things new with Ivory Snow!" (See Lesson 6— "Through Boom and Bust: How Advertising Adapts to the Business Cycle".)

Procter & Gamble made the tough decision to continue advertising during these gloomy times, and the investment paid off. Between 1933 and 1939, shipments of Ivory soap doubled; sales of Ivory Flakes more than doubled, and Crisco shipments increased threefold. Oxydol's shipments increased sevenfold between 1933 and 1939, making it the leading packaged soap in the U.S. As Procter & Gamble celebrated its centennial in 1937, the company reached sales of an astounding $230 million, and the depression was not over. (See Lesson 7— "Making More Cost Less: How Ads Fuel Economies of Scale".)

ECONOMIC REVIVAL AND THE BABY BOOM

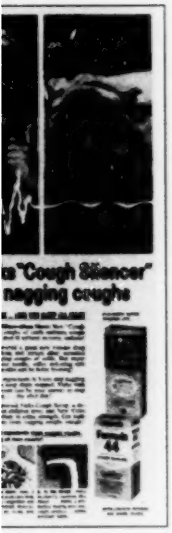
In 1941, Procter & Gamble awarded the Ivory Snow account to Benton & Bowles, a New York advertising agency started in the late 1920s by two Yale graduates, William Benton and Chester Bowles. It was B&B that in 1946 created the memorable ten-second radio jingle for P&G's new detergent: "Tide's in...Dirt's out". Tide soon outsold all laundry detergents.

The end of the Great Depression roughly coincided with the nation's entry into World War II and one of the country's most amazing economic growth spurts. After the war, the economy continued to grow. Americans wanted to experience the "good life." They had more leisure time and better products to buy. Factories no longer making armaments turned out cars, refrigerators, washing machines, air conditioners and, of course, televisions.

Returning servicemen and their wives, eager to resume a domestic existence, created a wave of new babies often called the Baby Boom. Between 1940 and 1950, the population grew from 131 million to 151 million; between 1950 and 1960, it increased to 179 million. Many American women who had worked outside the home during the war became full-time homemakers, and their children's well-being became their primary concern.

The introduction of Crest toothpaste in 1956 was a response to that concern. Capitalizing on the development of stannous fluoride, Crest was "the first and only toothpaste designed to prevent cavities". In 1960, Crest achieved one of advertising's biggest coups by winning the endorsement of the American Dental Association. Crest became the country's best-selling toothpaste, a position it has maintained, with some innovations, for some thirty years.

Commercial television first aired in 1948, the same year that the first TV ad for Ivory Snow appeared. On television as well as in print ads,



1950's

1960's

1970's

1980's

1990's

smiling, efficient matrons in crinoline petticoats and pearl necklaces declared that Ivory was the "safest possible soap for everything," from dish washing to fine fabrics to baby wash. The success of the new medium of television helped contribute to the success of the product: Americans had bought 32 million television sets by 1955, while sales of Ivory Snow grew by 74 percent. By that time, advertisers were spending a billion dollars a year on TV commercials. The 1950s are often called the Golden Age of Television. It was during this period that the medium developed its distinctive methods of delivering information visually, and advertising was transformed.

The prospering economy put more money into consumers' pockets, and the real income for the average American family doubled between 1947 and 1971. The great prosperity of the 1960s was accompanied by enormous social change. When America went to war again, this time in Vietnam, some young people criticized the values of their society. Television commercials of this period reflected some of the social changes that were going on in the nation. A 1966 Ivory Snow ad featured a dad, rather than a mom, cradling his baby and choosing Ivory to give her the softest diapers. The emphasis on softness, a more emotional and less scientific strategy than the very efficient Fifties-style appeal to safety, was another sign of the times.

CHANGING DEMOGRAPHICS

New laws in 1965 opened the door to a new wave of immigrants that changed the face of America. The fastest-growing group among these new Americans was of Hispanic origin from Mexico, Puerto Rico, and a large number of other Latin American countries. Asian Americans also increased their numbers. For

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25 years, one-third of America's new immigrants have come from the Philippines, China, Japan and other Asian countries. Advertisers increasingly found new markets in all this diversity.

Perhaps the greatest change of the 1970s was the increased emphasis on women's rights. Staying at home full-time in the role of wife and mother became only one option for American women. Responding to this change in demographics, Pampers were introduced in 1966 as the first mass-marketed disposable diaper. They were greeted enthusiastically by the many mothers now employed outside the home, who now had far less time to wash and care for cloth diapers. By 1976, Pampers' share of the diaper market had reached 71 percent. Pampers made it easier for mothers to enter the work force and contribute to the economy.

ADVERTISING IN TODAY'S MARKETS

During the 1980s, American abundance seemed greater than ever, as new sources of capital created growth across the land. Aware that they had become perhaps too soft from prosperity, many Americans took a new interest in fitness, health, nutrition, and self-improvement projects. People were increasingly concerned with their appearance, and this was reflected in growing sales of personal care products.

More than half of mothers with children under five were now employed full time outside the home. Early in the 1990s, P&G appealed to increasingly busy and harried parents who wanted to make sure their children were not neglected. Pampers advertising used soft colors and "the power of Mommy-baby love" to encourage parents to use the product to express love for their infant.

Advertising continued to propel the growth of the retail industry. Corporate profits for the retail industry rose from $21.6 billion in 1980 to $38.7 billion in 1989. Advertising is especially important to the supermarket industry. National brands backed by advertising made self-service supermarkets possible in the first place. P&G contributed to that growth in the past decade, with advertising expenditures on supermarket items reaching approximately $1.8 billion. Products such as Pampers, Dawn, and Jif are consistent leaders in their respective categories on the supermarket shelves. The popularity of these products translates to more traffic and bigger profits for supermarkets.

In the years since World War II, American advertising has found ways to appeal to a population that seemed to be changing every day. It has rapidly evolved from shop signs and classified ads to an industry with annual revenues of $20 billion in television alone. Advertising has been a big part of America's growth, and its evolution is far from complete.

INTERNATIONAL AGENCIES

Advertising agencies themselves have grown into larger and larger firms as markets have outgrown national boundaries to become international. The firm begun by Bill D'Arcy in 1906 had by 1986, through a series of mergers, become the international firm of D'Arcy Masius Benton and Bowles. It is now one of the world's largest marketing and communications companies with 56 offices in 46 countries.

As we head toward a new century and learn to deal more effectively with our resources, businesses are sure to come up with new and better products, and we can count on advertising to create new ways of spreading the word and paving the way for even more growth — all over the world.

High costs and the need to address accurately the consumer's needs in a competitive market have led to the development of a sophisticated process known as the advertising campaign. The next section discusses, in broad strokes, how that process works.

Nine Steps in an Advertising Campaign

When advertising people talk about creating a series of ads, they call it a "campaign." If that word makes you think of a race for political office, you're on the right track. The marketplace is a kind of polling place where victory is measured by the number of consumers who vote for one product over all the others.

It takes time to get people's attention and persuade them to try a product—a single ad usually won't do the trick. Not every potential customer will see the ad the first, second, or even the third time it appears. In the meantime, a competitor's ad might capture their attention. Even people who respond to the ad may quickly forget it. So it takes an entire series of ads—a campaign—to get people to remember a product and its benefits.

Gathering the facts: A researcher questions a panel of consumers about what customers want in specific products.

The most important rule for the people who create advertising is this: **Know the consumer, because the consumer's vote is the only one that counts**. The product must be designed to meet consumer demand or wants. So advertisers must find out how the consumer lives and why other products appeal to him or her. They must know how the consumer talks, so that ads will use language with which the prospective buyer feels at home. Representatives of a product's manufacturer and its advertising agency keep these thoughts in mind when they plan an advertising campaign.

STEP 1: GATHER THE FACTS

Before you tell the world about a product, you've got to know a lot about it. The agency and the client meet to discuss their understanding of the basic need the product fills and how it is different from its competitors. They want to address that need and dramatize their product's unique features. When the agency's team understands exactly what the client wants to accomplish with the advertising campaign, it's ready to go to work on the ads.

After the campaign is underway, both client and agency check in with each other almost every day to discuss product sales, changing business conditions, competitors' activities, market research and product improvements. In the advertising business, knowledge is power.

STEP 2: DEVELOP A STRATEGY

Armed with all the facts about the product, the agency gets to work on a strategy. The team decides on the ad's central message and determines its target audience. Then it zeroes in on the product's most important benefit, and how the product delivers it. These are crucial deci-

sions. The entire campaign is built on strategy that the agency develops here.

STEP 3:
CREATE THE COMMERCIAL

If you've ever entered a contest where you had to explain the meaning of life in 25 words or less, you have an inkling of the tough job of creating an ad. The copywriter and the art director form a team that will blend words and visual images to tell why the product delivers its benefits better than its competitors.

Developing the strategy: Client and agency people work together to identify the objectives of the advertising campaign.

In a print ad, they have about 70 words to tell the product's story. The average television commercial lasts only about 30 seconds. In either case, the words and visuals must be completely synchronized so that the whole effect is persuasive. The point must be made clearly and very fast. The team makes rough sketches of the pictures with the written copy. The art director prepares illustrations, or, for TV commercials, a series of drawings called a "storyboard", which shows what the pictures will be like on the TV screen. Then they take the copy and the storyboard to the producer, who looks them over to determine if the concept is workable and how much it will cost to produce the ad.

Creating the message: The creative team of writer and art director develop storyboards that dramatize the strategic idea.

STEP 4:
GET THE CLIENT'S APPROVAL

After the copywriter, art director, and producer are satisfied, they meet with the account executive who must agree that the ad fulfills the strategy. If all goes well here, they present the storyboard and the production plans to the client. Because the client has created the product and will pay for the advertising, this part is all-important. If the client determines that the ad is an accurate and persuasive presentation, the agency moves to Step 5. If not, it's back to the drawing board.

STEP 5:
GET LEGAL AND NETWORK APPROVAL

Now the legal department goes over the advertisement carefully to make sure it meets all company standards, as well as those set by the government. Most of the restrictions relating to accuracy guard against misleading statements. The agency also submits television commercials to the networks, who must approve them for accuracy and tastefulness before putting them on the air.

Producing the commercial: Once the approach is approved, the production and creative teams bring the story to life on the screen.

Because the airwaves are public property, the government can say what can and cannot be advertised. For example, beer cannot be advertised during morning cartoons, and guns cannot be advertised on TV at all. Consumer groups urge agencies such as the Federal Trade Commission and the Federal Communications Commission to require advertisers to add important information to labels and to curtail the advertising of products considered harmful. Ultimately, however, advertisers know that consumers will reject a product for which unrealistic claims or tasteless appeals are made.

STEP 6:
PRODUCE THE COMMERCIAL

At this stage, the drawings come to life. If the ad is being prepared for TV or radio, the agency's casting director chooses people to appear in it. The producer sets the production schedule, deciding when and where the commercial will be filmed or taped. Then the producer reviews the commercial, chooses the best of several takes, and makes sure it fits the allotted time. When the producers are happy with what they have, they show it to the account executive and, finally, the client. With everyone's approval, the producer finishes up the technical work, such as adding sound effects. Sometimes the ad is aired right away.

STEP 7:
TEST THE COMMERCIAL

Since the consumer is the ultimate judge, agencies sometimes test an ad before it is run. This might be done with a new-product ad, in order to make sure an appeal speaks to the consumer's needs. A lot of ordinary consumers might be asked if they understand the ad,

Planning the media: Media planners find the most effective means of reaching the target audience with the commercials.

believe it, and think it's accurate. If the ad makes a passing grade on all three points, there's a good chance it will succeed. If it fails on any of the three points, something is probably wrong with the ad, and it's time to fix it.

STEP 8:
PLAN THE MEDIA

Meanwhile, the agency's media specialists—people who decide where and when an ad will run—have been selecting television programs, publications, and markets for the campaign. To do this job right, they must study mounds of background information. After the choices have been made, the media specialist writes a detailed recommendation for the client, telling where the ads will run, how often, how many people they will

reach, the cost per thousand readers or viewers (CPM), and the total cost of the campaign.

D'Arcy Masius Benton & Bowles' 1989-1990 media plan for Ivory Snow illustrates what media planners do. During strategy-planning sessions, DMB&B determined that the target consumers, or market segment, would be first-time mothers from the third month of pregnancy until the third month of their babies' lives. The secondary target would be all pregnant women, as well as all women whose babies are less than a year old.

Here are some pivotal questions DMB&B's media planners asked themselves and the answers they came up with:

• ***What's the most efficient way to reach this nationwide audience?*** For this Procter & Gamble product, it was with print ads in all the prenatal and parenting magazines, and commercials on TV shows aimed at new parents.

• ***Which media attract the most women in this audience?*** The media specialists consulted networks and publications to determine advertising costs. They contacted rating services to learn how many people watch particular shows or read certain magazines. To spread the word about Ivory Snow to new moms, they chose magazines like *Baby Talk*, *American Baby*, *Expecting*, and several cable television programs.

• ***How much is this all going to cost?*** The media specialist must consider two expenses. One is the total cost, which must stay within the campaign budget. The other is called cost-per-thousand (CPM). That's the cost of reaching one thousand people with the ad. For instance, *American Baby* magazine, with a circulation of 1,150,000, has a CPM of $19.68, which means that it costs $19.68 to reach a thousand people. *Baby Talk* has a circulation of 975,000 and a CPM of $24.38. With these numbers in mind, Procter & Gamble chose to run more ads in *American Baby*, reaching more potential Ivory Snow buyers at a lower cost.

Using the Eight Lessons

Included in this guide are eight reproducible lessons about advertising and the economy. Each lesson is tied to standard principles of economics taught in high schools and may be used when you introduce those topics or used later as reinforcement. Each lesson is backed by a page of teaching tips. The lessons include:

1. "Consumer, It's Your Choice!"—Choosing Which Wants to Satisfy
2. "To Market, to Market!"—Using Ads to Link Buyers and Sellers
3. "Supply and Demand in Action"—How Advertising Affects Behavior
4. "Winning Market Share"—Using Ads to Set Products Apart
5. "The Ad Buck's Big Bang"—What Ads Contribute to the Nation's Output
6. "Through Boom and Bust"—How Advertising Adapts to the Business Cycle
7. "Making More Cost Less"—How Ads Fuel Economies of Scale
8. "Producer, It's Your Choice!"—Targeting Markets for New Products

• ***What are the demographics of the publication or the show being considered?*** In choosing magazines in which to advertise Ivory Snow, DMB&B learned that *American Baby* is the leading baby publication for first-time expectant mothers and new parents, addressing the concerns associated with pregnancy and child care.

STEP 9: BROADCAST OR PRINT THE AD

All of the agency's work—the ad, the media plan, and any promotion ideas—is presented to the client. With the client's final approval, everyone breathes a sigh of relief as the ad makes it to the airwaves or rolls off the presses. An advertisement has been born.

Name:_____ Class:_____ Date:_____

Consumer, It's Your Choice!

Choosing Which Wants to Satisfy

You know the basic fact of economics—people's wants are *unlimited*, but their resources are always *limited*. Suppose you had as much money as you needed to buy everything you wanted. You'd still be limited in the amount of time you could spend enjoying each good or service. That's why you continually have to make economic choices. You have to choose which want to satisfy, because you can't satisfy them all.

THREE WANTS. . .

Suppose you have $10 to spend today. You have three main wants, but you can afford to satisfy only one of them. Your wants are:

- **A pizza**. You're hungry, you love pizza, and your mouth is watering at the thought of it.
- **A movie video**. You haven't seen a movie in a long time and you'd like to sprawl out and be entertained.
- **A skin medication**. Your face has broken out and you want to look your best for a party next week.

How do you choose?

1. For a start, answer some basic questions about the three wants by writing Yes or No on the grid below:

	Pizza	*Video*	*Skin Medication*
a. Do I really want it today			
b. Is it something that has no substitute?			
c. Will it satisfy me more than once?			

2. Your choice also depends on something else. What kind of pizza, video or skin medication would you buy? This is where advertising can make a difference. For example, a pizzeria might advertise a low-price special, or a video store might advertise a new title. Now look at the ad for a skin medication on this page and answer the questions on the back of this sheet.

a. What kind of information does the ad give you?

b. How could this information influence your choice between the three wants?

c. How else could the information influence you?

3. Based on all the information given above, what would you spend your $10 on today? Why?

A Mother's Guide to zits.

Suppose one day your teenage son or daughter comes to you seeking motherly advice. (Heck, stranger things have happened.) Not about the birds and the bees. About zits.

Would you know what to recommend? What to caution against?

Well, relax. Here's everything you'll ever want to know about zits. Just in case they ask.

Cleansing is Critical

A simple rule to remember. Clean leads to clear. So kids should wash twice a day. But not with ordinary soaps, they can leave behind an oily residue.

Instead, there's Clearasil Daily Face Wash. Even might even want to pick some up for them. It's so mild, eliminates surface bacteria and foams away trapped dirt and oil from pores where pimples start, without ever leaving behind an oily residue.

What about pads? Double Textured Pads are just what every clinical teenager is looking for. Immediate gratification.

These pads work in two ways: the smooth side delivers pimple-fighting medicine and the textured side deep-cleans away dissolved dirt and oil. You'll see the proof right on the pad.

Prevention Is The Best Medicine

Yes, some pimples can in fact be prevented. But not by washing alone. That's where Clearasil Clearstick comes in. Its powerful medicine penetrates deep into your teens pores where soaps and cleansers can't go. Washing and using Clearstick regularly means 11, 25, up to 33% fewer pimples.

Spot Treatment

While proper cleansing and prevention can help prevent pimples, some will still manage to get through. No need to panic. Clearasil Benzoyl Peroxide Creams and Lotions contain the strongest acne-fighting medicine available without a prescription. In fact, Clearasil Creams and Lotions are so effective, they promise fewer pimples in just five days. Or your money back, guaranteed.

Caution: Teen Skin Can Be Sensitive

You know just how sensitive teenage skin can be. After all, it wasn't that long ago that you were. Well, mom, we'll be glad to know that Clearasil has a complete line of acne and skin care products specially formulated with ingredients to make sure your kid's face and skin won't be sacrificed (not to get rid of a few zits).

Any Questions? 1-800-224-MOMS

Taking a more active role in your teens' skin care can help them improve their self-image, in more ways than one. So, if you would like to receive a free pamphlet on teen skin care, would not like more information about the complete line of Clearasil cleansing, prevention, and treatment products, or have any unanswered questions, please call us at the above number today. That way, when your kid's ready to have a little chat, you won't sound like you're totally wacked.

Clearasil

Clear 'em clear. Keep 'em clear.

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Consumer, It's Your Choice!

Choosing Which Wants to Satisfy

PURPOSE

This lesson highlights a basic economic requirement of life— that since resources are scarce, people have to make choices among the wants they wish to satisfy. Students will:

- evaluate a situation in which they have three wants but only enough resources to satisfy one;
- apply some objective methods of assessing wants;
- discover the role of advertising in making economic choices.

ECONOMIC AND ADVERTISING CONCEPTS

want: any good or service that people would like to obtain.
good: any tangible product.
service: an action performed for payment.
resource: anything used to produce or obtain a good or service (including money and time).

USING THE ACTIVITY SHEET

Ask students how they decide what to buy with their money. Do they stop to think of all the things they want and compare them carefully? Do they look at advertising? At this point most students may seem to make decisions based on habit or impulse. However, the activity will probably reveal that they also use judgment and information from advertising.

Some students may observe that advertising for pizza or a video is somewhat different from the Clearasil ad. Although there are national pizza chains, the individual product may vary greatly. And advertising for video stores depends largely on individual movie titles. Such differences are discussed in Lesson 2.

Students will differ even about the apparently objective answers to Question 1. For example, although they are unlikely to starve before going home and making themselves a peanut butter sandwich, they may argue that the sandwich is no real substitute for a pizza right now. Point out that they are free to evaluate the choices as they wish, but that they should be aware of their choices and the reasons for them.

Following the activity, ask students if they consider ads closely when making economic choices. If they tend to answer in the negative, ask them to name some nationally advertised products. Then ask them what they know about each product. Alternatively, you may name half a dozen or so products yourself, such as Seven-Up, Ivory, McDonald's, Jif, Nike, Apple, or Crest.

ANSWERS

There are no absolutely right answers to any of the questions. **1**. (a) Will vary. (b) Probably Yes for skin medication. (c) Probably Yes for video and skin medication. **2**. (a) Advertising gives information about new products. (b) The benefits described could strengthen the reasons for choosing a skin medication. (c) The benefits described could determine the choice of this brand of skin medication. **3**. Will vary.

EXTENSION ACTIVITY

One important aspect of advertising is packaging, which is designed both to appeal to consumers and to provide information about a product. Select (or have students select) one familiar type of packaged product, such as skin medication. Then have them go to a store and examine the packages of three different brands of that product. They should compare the packages for visual appeal and useful information and prepare a written or oral report for the class on their findings. On the basis of these reports, the class could discuss which brand they would choose, and why.

Name:_____ Class:_____ Date:_____

To Market, to Market!

Using Ads to Link Buyers and Sellers

If you make or own something, are you free to sell it? In most cases the answer is Yes. The United States has what's called a *mixed market economy*. In a *pure market* economy, producers can offer anything they think they can sell, and consumers can buy anything that's offered with no outside controls. In a mixed market economy, government sets certain rules and limits. In this country, for example, it's illegal to sell narcotics without a prescription or to advertise cigarettes on television. Within such boundaries, however, there's a market for anything people want to sell and buy.

What does that mean, a *market*? Well, it doesn't have to be a place like a supermarket. In economics, a market is any way of bringing a seller and buyer together. Today many goods and services have international markets, with buyers and sellers thousands of miles apart. For example, buyers and sellers can get together by phone, by mail, by fax, or by computer network.

Write the answers to these questions on the back of this sheet.

1. Under what circumstances might buyers and sellers want to get together—locally, nationally, and internationally—without meeting?

FINDING YOUR MARKET

Markets come in many different sizes. Nearly all Americans take part in markets for bread and milk, while only a small number are in the market for luxury yachts. Would someone who wanted to sell a luxury yacht advertise in high school newspapers?

2. Suppose you're trying to find markets for three items. You want to sell a **video movie**, a **used car** in good condition, and **1,000 T-shirts**, brand new and left over from a rock concert that was rained out. You also want to sell the items as quickly as possible. Look at the means of advertising in the chart below. First of all, fill in the blanks in column C with estimates for your community.

A. TYPE OF AD	B. COST	C. NUMBER OF PEOPLE IN EACH MARKET
Word of mouth.	None	
Supermarket bulletin board.	None	
Classified ad in local newspaper.	$20.	
Display ad in local newspaper.	$75.	
Brief spot on local radio station.	$75.	
Brief spot on local TV station.	$500.	
Small ad in national magazine.	$6,000.	4 million
Full-page ad in national magazine.	$25,000.	4 million
30 second commercial on network TV.	$80,000.	14 million

3. Select two kinds of ads for each item and explain why you chose them. Note the ads in the appendix to this lesson which your teacher can supply. For which of the above markets would each ad be most appropriate?

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To Market, to Market!

Using Ads to Link Buyers and Sellers

PURPOSE

This lesson explores the nature and role of markets and advertising in a mixed market economy. Note: It will be helpful to have examples of flyers, classified ads, and full-page ads from newspapers and magazines in the classroom. Students will:

- demonstrate understanding of the economic term *market*;
- relate the size of a market to the good or service involved, and
- discover how different kinds of advertising are adapted to support different kinds of markets.

Materials needed: Student photocopies of the two ads for Lesson 2 from the Appendix on page 31 of this manual.

ECONOMIC AND ADVERTISING CONCEPTS

market: any means by which buyers and sellers of a particular kind of good or service get together.
market economy: an economic system in which production and consumption are driven by supply and demand. In a *pure* market economy, supply and demand would be the sole driving force. In a *mixed* market economy, government regulations set some limits on the interplay of supply and demand.
classified ad: a small advertisement consisting only of words and grouped with other ads of the same kind.

USING THE ACTIVITY SHEET

Ask students what connection there is between advertising and a market economy. (If necessary, review the term market economy by having students read the first section.) Who can advertise in a *market economy*? (Anyone with a good or service to sell.) Display a range of ads from classified to full-color, full-page ads, and discuss how and why these ads differ in size and appearance. Why might a manufacturer of household products such as Procter & Gamble be willing to spend $10 million on an ad for a product that sells for less than $2? Finally, tell students that in this activity they will be choosing the best kinds of advertising to reach three different markets.

ANSWERS

1. Buyers and sellers might wish to interact without meeting in situations where distance makes it inconvenient. For example, a consumer shops in a supermarket for a variety of items. If the supermarket is part of a chain, its manager might use a computer hook-up to order items from its regional warehouse. To make sure that there is enough product in stock, a buyer at the warehouse might use the phone or fax machine to order more. Later, the firm might pay for the order by mail or use a computer to transfer funds electronically. Electronic transactions also make it possible to take advantage of fast-breaking developments that affect markets quickly, as in the stock market. **2,3**. The cost of advertising should be appreciably less than anticipated receipts from the sale. Here are some reasonable answers: for the video, word of mouth or the supermarket bulletin board; for the car, a classified ad. If the seller were willing to handle the shirts individually, the revenues they could generate might justify a local radio or TV spot.

EXTENSION ACTIVITY

Have students analyze any two newspapers or magazines ads. At what market is each aimed? Where else might the ads have been placed to reach the same market?

Name:_____ Class:_____ Date:_____

Supply and Demand in Action

How Advertising Affects Behavior

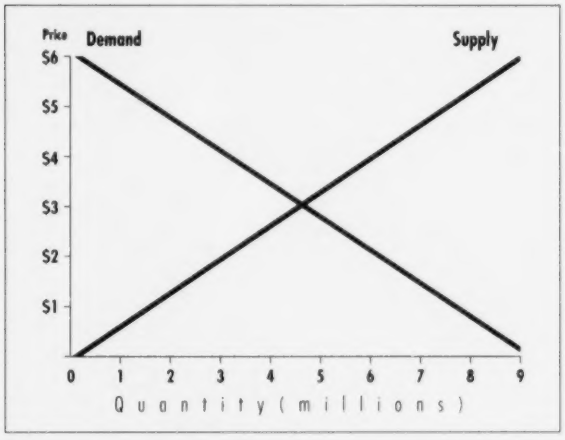
Have you ever seen a 32-ounce bottle of dishwashing liquid advertised for sale at $50? Probably not, because at that price no one would buy it, even if it's top-quality soap. Consumers would buy another, more reasonably priced brand instead.

Would your family buy a 32-ounce bottle of good dishwashing liquid if it were advertised for a nickel? Sure. A lot of other families would, too. The catch here is that no producer is going to sell dishwashing liquid for a nickel. If producers can't cover their costs and make a profit, they'll go out of business.

That's what supply and demand is all about. Producers would like to sell a lot of goods at high prices, while consumers would like to buy a lot of goods at low prices. But they settle for a price and a quantity somewhere in between. Ideally, this is the *market clearing price*—the price at which producers are willing to offer exactly the same quantity of goods as consumers are willing to buy.

WHERE SUPPLY MEETS DEMAND

This graph shows how supply and demand meet for a dishwashing liquid:



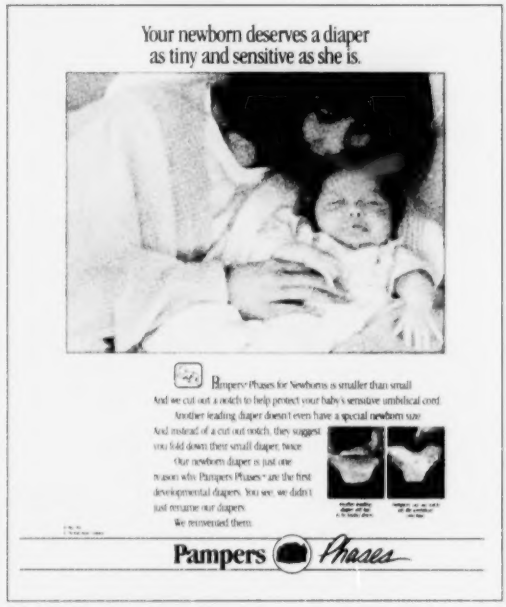
Use the back of this sheet to answer the following questions.

1. What is the market clearing price?

2. What would happen to sales of the dishwashing liquid if the producer set the price at $5?
Note: Supply and/or demand can change, thus raising or lowering the market clearing price.

3. Look at the graph above. What will happen to the market clearing price if supply increases? (Hint: the supply curve will move to the right. Pencil in a line parallel to the supply curve about 1/8 inch to the right.)

Now look at this ad:



Suppose a manufacturer creates an improved version of a popular product, such as Pampers, with new features at the same price. How could an ad such as the one above affect demand?

5. When demand increases, a producer may decide not to change the price. Why?

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Supply and Demand in Action

How Advertising Affects Behavior

PURPOSE

This lesson focuses on supply and demand, one of economics' trickiest concepts. Students will:

- interpret a supply and demand graph to show how the two variables are related;
- infer the consequences of changes in demand;
- assess the role of advertising in influencing demand.

ECONOMIC AND ADVERTISING CONCEPTS

supply: the various quantities of a good or service that producers are willing and able to offer at all possible prices during a given period of time.
demand: the various quantities of a good or service that consumers are willing and able to buy at all possible prices during a given period of time.
market clearing price: the price at the point where supply and demand meet. In theory, if the quantity that producers are willing and able to offer at this price is put on sale, all the consumers who are willing and able to buy will be satisfied and none of the good or service will be left unsold. In other words, the market will be cleared.

USING THE ACTIVITY SHEET

Have students look at the graph on the Activity Sheet. Draw their attention to the prices on the Y axis and the quantities on the X axis and then have them study the Demand curve (pointing out that a curve on a graph may be a straight line). Ask: How much of the product would consumers buy if the price were $5? (About 1.5 million) If the price were $4? (About 3 million) Continue until students can understand clearly the law of demand: As price increases, demand decreases. Then ask similar questions for the Supply curve to clarify the law of supply: As the price decreases (or increases), the quantity or supply increases (or decreases).

To clarify the difference between *demand* and *quantity demanded*, tell students that they're looking for ordinary ballpoint pens (or some other item they might buy in quantity). Who would buy a pen at $5 each? (Presumably no one.) Repeat the question with progressively lower prices, until there are positive responses, then ask: How many would you buy at that price? Finally, announce that the pen is advertised at 50¢. Point out that the whole range of answers represents *demand*, while the single answer for 50¢ represents *quantity demanded*.

Next, you might elicit the fact that advertising is one major reason for an increase in demand. Point out that prices do not change with every variation in supply and demand. For example, producers often set a low price on a new product to stimulate initial sales.

ANSWERS

1. $3.00. **2**. The sales (quantity demanded) would drop from nearly 5 million to less than 2 million. **3**. The market clearing price would drop to less than $3.00. **4**. The ad could increase demand by offering new features that consumers find attractive. **5**. Possible reasons may include: to make sure that the increase in demand will last; or a change in costs, which affects the market clearing price; or the possibility of a recession, which could lower demand.

EXTENSION ACTIVITY

Have students imagine they are producers of a new type of film that can take color photos in very low light without a flash. It is expensive to manufacture, so that it will have be priced 25 percent higher than regular film at the expected volume of sales. How would students advertise the new film to maximize demand? Encourage them to think of the effect of the new film on the demand for other products, such as batteries, tripods, etc.

Name: _____ Class: _____ Date: _____

Winning Market Share

Using Ads to Set Products Apart

As you flip through a magazine or watch commercial TV, you'll see ads for different brands of many kinds of products, from paper towels to cars. In a market economy, producers compete with one another to sell their goods and services. Because there is advertising, there is competition, and that's good for the economy.

MARKET STRUCTURES

The amount of competition in a market is known as the *market structure*, and it can vary from none to a lot:

Monopoly (only one producer)

Most monopolies are illegal in this country. The exceptions are called natural monopolies *— utilities, basic phone service, public transportation.*

Oligopoly (only a few producers)

Oligopolies exist in a few industries — such as airlines — where it is very expensive and difficult for newcomers to gain a foothold.

Monopolistic Competition (many producers of *differentiated* products)

This is by far the most common market structure in the United States.

Perfect Competition (many producers of *undifferentiated* products)

This applies to goods—such as farm produce—that are not marketed under brand names.

Answer these questions on the back of this sheet.

1. In which kind of market structure would you expect to find the most advertising? Why?

2. How does competition affect prices and quality?

ADVERTISING AND COMPETITION

Suppose there was no more advertising. Magazines and newspapers would have no ads like the Crest ad on this sheet to tell you about new products or new features, and TV would have no commercials. But without advertising, there would be less competition and less information on which to make decisions. Now answer these questions:

3. (a) What would happen to your family's buying habits? (b) Would producers still be able to compete effectively? Why, or why not? (c) What would happen to the country's employment rate? Why? (d) What would happen to the prices of most products you buy? Why?

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Winning Market Share

Using Ads to Set Products Apart

PURPOSE

This Activity Sheet should give students a clearer understanding of advertising's positive role in creating competition in the United States economy. They will:

- analyze the main types of market structure in the U.S. economy;
- relate competition to advertising;
- evaluate the importance of competition and advertising to the U.S. economy.

ECONOMIC AND ADVERTISING CONCEPTS

market structure: the amount of competition that exists in the production of a given kind of good or service.

monopoly, oligopoly, monopolistic competition, perfect competition: These are defined in the chart on the Activity Sheet.

USING THE ACTIVITY SHEET

Before students begin, you might ask if they can think of any products and services that are rarely advertised. (Water and sewage services, libraries, garbage pick-up, etc.) Lead into a discussion of natural monopolies, so that students understand their small but important part in our economy.

Review the definitions of the four main market structures. Ask what the somewhat misleading terms *monopolistic* and *perfect* mean in the two types of competition. (In monopolistic competition, producers have a monopoly of their own brands, which competitors are not allowed to reproduce.) In perfect competition, the goods of any one producer (for example, farm-grown green beans) cannot be differentiated clearly enough for there to be brand monopoly.

For the section, "Advertising and Competition," you may ask: If advertising were banned, do you think manufacturers would be motivated to make a better product than those of their competitors? To improve a product? This should help them see how advertising spurs manufacturers to compete.

ANSWERS

1. Monopolistic competition, because it represents the largest category of competitive products.
2. Advertising creates competition, and competition generally exerts pressure on producers to keep quality as high and prices as low as possible, or else consumers will turn to another brand. 3. (a) Will vary, but students should realize there would be significant changes. (b) No, because for most consumers competition would be limited to a comparison of the brands available at their local stores. (c) Employment might suffer because jobs would be lost in advertising and its support industries and in other sectors of the economy where producers would be unable to market their products effectively. (d) In the short term, prices would be likely to rise in the absence of direct competition through advertising. Newspapers, magazines, and other media would become much more expensive without ads. In the long term prices would be likely to fall—a reflection of a recessionary economy marked by employment and production declines.

EXTENSION ACTIVITY

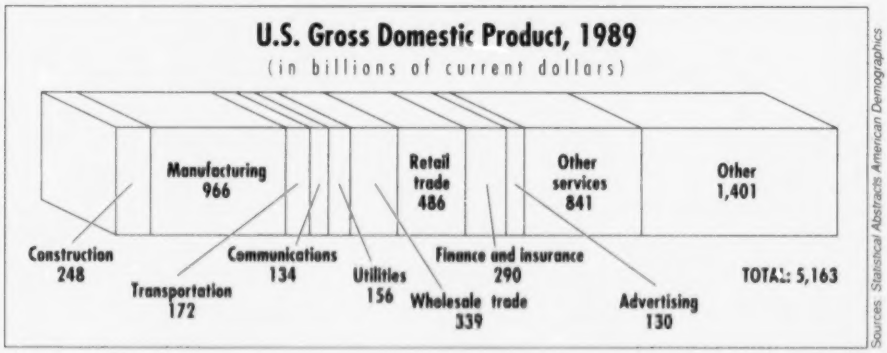
Assign students to prepare lists of commercial names, to include (a) brand names of products under monopolistic competition, (b) names of airlines, and (c) names of farm produce from the boxes on display at grocers. Write a selection of these names on the chalkboard (omitting any words that reveal the good or service) and have students try to identify the market structure of each, giving reasons for their choice. Then discuss the role of brand names in stimulating sales. Which of the names are most effective? Least effective? Why?

Name:_____ Class:_____ Date:_____

The Ad Buck's Big Bang

What Ads Contribute to the Nation's Output

How do you measure the whole economy of the United States? One yardstick is the Gross Domestic Product (GDP)—the value of all the goods and services produced within the country during a given year. Here's a bar graph of a recent year's GDP showing the relative size of a few different sectors of the economy—including advertising:



se the graph to help you fill in the following:

The total value of the GDP in 1989 was_____.

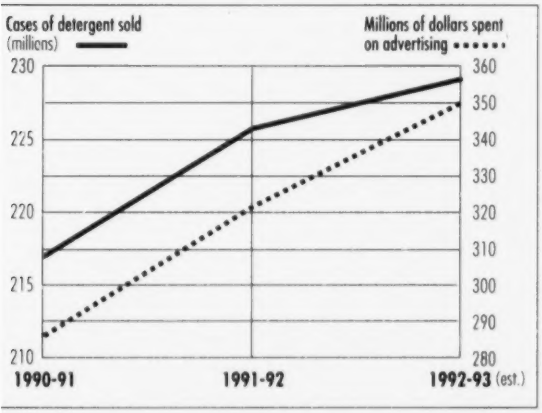
The output of advertising in 1989 was_____.

Advertising directly accounted for approxiately (0.5, 1.5, 2.5) per cent of the 1989 GDP.

CLOSER LOOK

his double line graph traces the amount producers laundry detergent spent on advertising and the olume of their sales over a period of 2 years.

se the graph to help you answer these questions the back of this sheet:



4. About how much was spent on advertising in 1990-91?

5. About how many cases of detergent were sold in 1991-92?

6. In general, did sales increase more when more was spent on advertising?

PUTTING IT ALL TOGETHER

Since advertising helps to boost production, it plays a part in many different sectors of the economy. Consider the ad for Dash which your teacher can supply. Think of the all the stages involved from this detergent's manufacture through its arrival on the shelves of your neighborhood supermarket.

7. Check those sections of the economy, listed below, that could be affected by the production of Dash. Briefly describe one way each sector you checked would be affected.

a. Construction
b. Manufacturing
c. Transportation
d. Recycling/Recovery
e. Communications
f. Utilities
g. Wholesale trade
h. Retail trade
i. Finance and Insurance

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The Ad Buck's Big Bang

What Ads Contribute to the Nation's Output

PURPOSE

This lesson uses graphs and a chart to show how advertising contributes both directly and indirectly to the economic output of the United States. Students will:

- interpret a bar graph and a line graph, and complete a chart;
- evaluate the direct contribution of advertising to the economy;
- infer the indirect contribution of advertising to the economy.

Materials needed: Student photocopies of the Dash ad from the Appendix on page 31 of this manual.

ECONOMIC AND ADVERTISING CONCEPTS

Gross Domestic Product (GDP): the total value of goods and services produced within a country in a given period.
volume (of sales): the dollar value of goods or services sold by a producer during a given period.
sector (of the economy): any major area of production. The U.S. economy may be divided into the public sector (run by government) and private sector (run by private enterprise), or into such categories as manufacturing, services, etc.

USING THE ACTIVITY SHEET

Ask students to estimate the magnitude of advertising's impact on the U.S. economy. Review the term Gross Domestic Product, and ask for estimates of the percentage of the GDP represented by the advertising industry. Record the range of estimates on the chalkboard.

Have students work on the first section of the Activity Sheet, then review their estimates. Have students complete the Activity Sheet and review the estimates again. You might point out that the *indirect* contribution of advertising (increased sales and employment, support for the media, etc.) is much higher than its dollar share of the GDP.

ANSWERS

1. $5,165 billion. **2**. $130 billion. **3**. 2.5 percent. **4**. $286 million. **5**. 226 million. **6**. Yes. **7**. All the categories may be checked. Answers might include: *Construction*: The manufacture and distribution of Dash require such buildings as factories and warehouses. *Manufacturing*: Both Dash and its container are manufactured. *Transportation*: Raw materials are transported to the factories; the finished goods are transported to all points of sale. *Recycling*: Materials such as plastics, reclaimed from recycled containers, can be used to create new products such as park benches. *Communications*: Manufacture and distribution require continual communication (by phone, fax, mail, network, etc.) between suppliers, manufacturers, and distributors. They also require communication between between buyers and sellers; this is a major function of advertising. *Utilities*: Manufacturing requires electricity, water, sewerage, etc. *Wholesale trade* and *Retail trade*: The sale of any widely distributed good or service involves both. *Finance and Insurance*: Virtually all industrial and commercial enterprises require banking and insurance services.

EXTENSION ACTIVITY

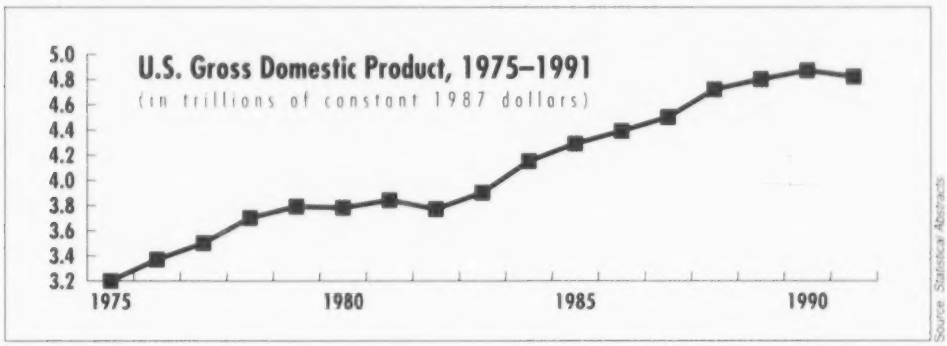
The devising of a strategy to sample and estimate the contribution of advertising to the retail trade could be a class project. Brainstorm ideas for an overall strategy. Examples: (a) identify stores that deal entirely with unadvertised goods or services, (b) distinguish between (widely) advertised and unadvertised goods in the other stores, (c) estimate the percentage of advertised goods in these stores, and (d) calculate the percentage for all stores. Different groups can devise methods of carrying out each of those tasks. Another group can analyze the results. For example, to what extent are stores in your community typical of those throughout the nation?

Name:_____ Class:_____ Date:_____

Through Boom and Bust

How Advertising Adapts to the Business Cycle

In a market economy, periods of growth and recession occur within the business cycle. When there's a boom, production expands steadily, and the Gross Domestic Product rises. When there's a recession, production flattens or shrinks, and so does the GDP. This graph shows how the economic output of the United States varied between 1975 and 1991:



1. The longest boom covered by the graph occurred during what years?

2. After each of the following years, write **Peak** if it marked a peak in the business cycle, **Trough** if it marked a trough, or **Neither** if it marked neither a peak nor a trough.

1977:_____. 1982:_____.

1990:_____.

COPING WITH THE CYCLE

When the economy is shrinking or in a recession, most people tend to spend less on goods and services. Some consumers reduce spending because they've lost their jobs or had to take a pay cut. Others spend less because they're afraid of losing their jobs or part of their income. This drop in demand causes production to decline, making the overall decline worse—and jobs less secure.

Producers can use advertising to try to maintain or increase demand. Compare two Ivory Snow ads which your teacher will supply. Then answer the following questions on the back of this sheet.

3. What does the first ad, produced as the Great Depression was ending, suggest about the way advertising adapts to business conditions? How is the second ad, produced in the 1990s, different from the earlier one in this regard?

4. Suppose you are a producer of toothpaste. A recession is on and sales of all brands of toothpaste are dropping. What kind of message would you want your advertising to send to consumers? Describe that message in two sentences or less.

5. Now suppose you are a producer of refrigerators. Again, you face a recession and falling sales. In fact, sales are falling steeply because a refrigerator is a major purchase, and many people are sticking to their old models until the economy improves. Manufacturers of durable goods, such as refrigerators, are greatly affected by the business cycle.

Would you (a) slash your advertising budget in order to save expenses and hope to ride out the recession? Or would you (b) decide that advertising could more than cover its expense with the right message? If (a), explain why you think this is the better decision. If (b), outline what you think the right advertising message should be.

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Through Boom and Bust

How Advertising Adapts to the Business Cycle

PURPOSE

This lesson focuses not only on the business cycle but also on the way in which decisions by producers and consumers can affect the duration and intensity of periods of boom and recession. Students will:

- interpret a graph of fluctuations in the Gross Domestic Product of the United States;
- infer the effect of advertising on production and consumption during periods of recession;
- simulate decisions that producers might make about advertising during periods of recession.

Materials needed: Student photocopies of two Ivory Snow ads from the Appendix on page 32 of this manual.

ECONOMIC AND ADVERTISING CONCEPTS

Gross Domestic Product (GDP): the total value of goods and services produced within a country in a given period.
business cycle: the alternation between periods of expansion and contraction in a market economy.
boom: a period of expansion in a nation's economy when both production and consumption are increasing.
recession: a period of contraction in a nation's economy when both production and consumption are decreasing.
peak: the highest point in a business cycle.
trough: the lowest point in a business cycle.

USING THE ACTIVITY SHEET

You might begin by reading aloud the section on the Great Depression in "Highlights from the History of Advertising" at the front of this booklet. Then, have students imagine they know nothing about the present state of the U.S. economy. What clues would they look for to find out? (Answers might include: most stores open, or many closed down; office buildings fully rented, or full of vacancies; number of ads in local newspaper, etc.) What is the present state of the U.S. economy? Do students think it will be in the same state next year? Why, or why not?

Discuss any relevant concepts involving the business cycle. Then have students work through the Activity Sheet. Questions **4** and **5** could provide the basis for a general discussion.

ANSWERS

1. 1982-1990. **2.** 1977: Neither. 1982: Trough. 1990: Peak. **3.** That appeals change with customers' needs—in this case, the need to make do in a time of scarcity. The second ad makes no reference to economic concerns. **4.** Answers will vary, but the ad might point out that inexpensive care of the teeth is likely to save on more costly dentist bills. **5.** Without further background information, students who choose (a) cannot be called wrong; however, this decision involves abandoning hope of recovery before the end of the recession, which may be too long to wait. Advertising for the refrigerators might, for example, focus on the greater efficiency of a new model, which would save on electricity costs and perhaps even on food spoilage.

EXTENSION ACTIVITY

Either individually or in groups, students could devise more detailed ads for their toothpaste and/or refrigerator. The whole class could then judge which ads would be most effective in encouraging them to buy during a recession.

Alternatively, or in addition, students could be assigned to select and bring to class two print ads that they think would be most likely to persuade them to buy a product immediately. What economic arguments were made or implied in these ads?

Name:_____ Class:_____ Date:_____

Making More Cost Less

How Ads Fuel Economies of Scale

Does "economies of scale" mean making goods that weigh less? If the term puzzles you, it should be clearer after you've worked your way through this story.

Irving and Irene Inventor have trouble keeping their venetian blinds clean. So they invent the Vacuum Magic attachment for cleaning blinds. It works so well that all their friends want one. They decide that they have two choices.

Choice One. They can set up a workshop in the garage and produce just enough Vacuum Magics for friends and other people who hear about them through word of mouth. They estimate that the monthly sales would be 10 and the monthly production costs:

a. $13.70 for materials (plastic, glue, screws);

b. $15.00 to rent a plastic molding machine;

c. $20.00 for the cost of their time. (Each earns $8 an hour at a regular job and it takes 1¼ hours to make 10 attachments.)

1. What is the unit cost for (a)?_____; (b)?_____; (c)?_____. The total for each attachment?_____.

Since they would rather be bowling than working in the garage in their spare time, they want to make a profit—$10 a month.

2. What is the selling price for each attachment?

Choice Two. They can go into business making Vacuum Magics. They can advertise on local TV and have the attachment sold through local stores. Because advertising will make many more people aware of the product, they estimate that sales will start at 500 units per month. The unit costs will now be:

(a) $0.74 for materials, because they can be bought in large quantities at a discount;

(b) $0.50 for equipment, because they can afford to lease a high-speed molding machine for $250 a month;

(c) $0.30 for labor. They can hire a student to work after school for $5 an hour. Thanks to the high-speed machine, only 30 hours of work per month will be needed.

(d) $1.00 for advertising, which will total $500 per month.

(e) $0.50 for retail costs, which will go to the stores that market the attachment.

With $0.75 profit per unit, they will make a total of $375 per month. Not enough to quit their day jobs yet, but who knows about the future?

3. What is the unit cost now?_____

4. What is the selling price?_____

HOW SELLING MORE CAN COST LESS

When goods are produced in large quantities, the *total* costs are greater but the *unit* costs can be smaller. Compare the two sets of costs above.

5. What are the benefits of Choice Two in terms of profits and jobs?

6. What change enabled them to increase quantities?

7. This is a storyboard for a television commercial that was shown on a TV program watched by 5 million people. What connection does it have with economies of scale?

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Making More Cost Less

How Ads Fuel Economies of Scale

PURPOSE

One of the driving forces of a modern market economy is the ability of producers to reduce costs and prices by taking advantage of economies of scale. In this lesson students will:

- compare a small-scale and a larger-scale plan for producing the same good;
- calculate the different unit costs and selling prices;
- explain the role of advertising in achieving economies of scale.

ECONOMIC AND ADVERTISING CONCEPTS

economies of scale: the reduced unit production costs that become possible with an increase in the quantity produced.
unit cost: total production costs divided by the number of products made, or the average cost of each product.
selling price: the price per unit paid by consumers.

USING THE ACTIVITY SHEET

This lesson can serve as either an introduction to or a review of the concept of economies of scale. In either case, begin by having the students read the entire Irene and Irving Inventor story. Then invite questions and allow several minutes for discussion of the concepts involved.

After students have worked through the questions, ask them to tell you the two sets of unit costs and selling prices so that you can write them on the chalkboard. This way you can make sure that all students know the correct figures and understand their implications. You might point out that the percentages allowed for profit under Choice One (more than 20%) and for the advertising budget under Choice Two (nearly 33%) are much larger than would be realistic for a large-scale producer. The actual amounts involved in this enterprise, however, are small.

ANSWERS

1. (a) $1.37. (b) $1.50. (c) $2.00. $4.87. **2**. $5.87. **3**. $3.04. **4**. $3.79. **5**. Total profits will be greater and there will be a part-time job opening (with the possibility of more jobs if the business expands.) **6**. Advertising. **7**. Millions of people watch this show. Even if only a small percentage of them buy the product, the quantity produced will be large enough to allow significant economies of scale.

EXTENSION ACTIVITY

The class could research production costs for their own invention (or any product they might be interested in making). Like the Inventors, they should estimate costs for production both on a small scale (10 units per month) and a larger scale (at least 500 units per month). Different groups could be assigned to find out the costs of materials, equipment, labor in both cases, and of local TV advertising in the latter case. They should then decide on an acceptable profit. Do their results support the concept of economies of scale? If not, what went wrong?

Name:_____ Class:_____ Date:_____

Producer, It's Your Choice!

Targeting Markets for New Products

In a mixed market economy, both consumers and producers have choices. In this lesson, you'll make choices as a producer, deciding how best to allot productive resources:

You are a brand manager for a large manufacturing company that has developed a new product called Whim. You are responsible for suggesting how Whim might best be marketed.

What is Whim? That's for you to decide. Put a check mark in one of these boxes, or write in your own description under *Other*.

☐ **Cleaner** ☐ **Video game** ☐ **Snack food** ☐ **Perfume** ☐ **Appliance**

☐ **Other**_____

Now look at the two sets of categories below. Market research shows that Whim will appeal strongly to one group in each set and moderately to a second group in each set. Keeping in mind your concept of Whim, decide what groups it will appeal to and write in **S** (for strongly) and **M** (for moderately) below the appropriate groups.

SET A: **Low income**____ **Moderate income**____ **High income**____

SET B: **Ages 16-29**____ **Ages 30-49**____ **Ages 50 and over**____

HOW WILL YOU SELL WHIM?

You have an advertising budget of $1 million for launching Whim.

1. Look at the following "media menu" and decide how you can best use that budget to reach your market. You may spend less than $1 million but not more.

- National TV, prime time, 1-minute commercial, $125,000, to be seen by 10 million people. Number of commercials: _____
- National TV, daytime, 1-minute commercial, $30,000, to be seen by 5 million people. Number of commercials: _____
- National general interest magazine, full-page ad, $90,000, to be seen by 34 million people. Number of ads: _____
- National special interest magazine, full-page ad, $25,000, to be seen by 4 million people. Type of interest (e.g. sports, music, educational, etc.). Number of ads: _____
- Big city newspapers, 1/2 page ad, $10,000, to be seen by 600,000 people. Number of cities:_____ Total number of ads: _____
- Small city newspapers, 1/2 page ad, $2,500, to be seen by 150,000 people. Number of cities:_____ Total number of ads: _____
- Spot Radio, 1 minute commercial, $30, to reach 12,000 people. Number of commercials:_____
- Outdoor, 10 billboards, $6,000, to reach 50,000 people per day for one month. Number of billboards:_____

2. What two features would you emphasize in advertising for your market? Check your choices from the following list and/or write in your own.

☐ **Price** ☐ **Novelty** ☐ **Convenience** ☐ **Durability**

☐ **Attractiveness** ☐ **Ecological soundness**

☐ **Educational value** ☐ **Other**_____

3. On the back of this sheet, write a rationale for the choices you made under **1** and **2** above. Be sure to relate them to your particular Whim product and its markets.

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Producer, It's Your Choice!

Targeting Markets for New Products

PURPOSE

Like consumers, producers must make economic choices among limited resources. This lesson focuses on choices that relate to advertising. Students will:

- choose an advertising strategy that fits a limited budget;
- outline the basis of a cost-effective advertising campaign;
- explain the reasons for their decisions.

ECONOMIC AND ADVERTISING CONCEPTS

market research: a study of consumers to find out what kind and how many buy an existing product or are likely to buy a new one.
prime time: the peak period of TV watching, currently from 8 to 11 p.m.

USING THE ACTIVITY SHEET

Have students read the first section, in which they are asked to identify Whim and its potential market. Elicit the fact that there should be some relation between the product and its market: a video game, for example, is unlikely to appeal most strongly to Ages 50 and over. Also point out that real-life market research would break the population down into more categories than are shown here.

After students have completed the Activity Sheet, ask them in what way the producer's choices are similar to and different from those of a consumer. (Allotting the advertising budget is similar to making consumer choices from a personal or family budget; planning the focus of the advertising campaign has no counterpart in consumption.)

ANSWERS

There are, of course, no specifically correct answers to the options listed under **1** and **2**. Much will depend on the rationale with which students justify their choices of media and of features to emphasize in the light of their chosen market.

EXTENSION ACTIVITY

Working in groups, students could plan an ad campaign to launch a new product of their devising. The potential market this time is the rest of their class. Their product may be one of the Whims chosen earlier, a different Whim, or a product with a different name. (No product, however, should cost more than $10.) Their budget consists not of money but of time: they have 30 minutes (or whatever time you wish to allot to this activity) to create their campaign. They may use either or both of (a) print ads and (b) 15-second radio commercials. Each group presents its campaign to the rest of the class, which must decide which two of the products they would buy. A follow-up discussion would focus on the reasons for these choices.

A good wrap-up for this lesson is the cartoon video, "Ump's Fwat," produced by the Academy for Economic Education, Nation's Bank Center, Richmond VA 23277. Phone: (804) 643-0071.

FOR SALE FOR SALE FOR SALE

FOR SALE

10-SPEED TRAIL BIKE

PREVIOUSLY OWNED
Well-Maintained
$100
OR
BEST OFFER

U.S.-BUILT
10-SPEED TRAIL BIKE
(*That's right 10 speeds!*)

PHONE PAM S :
231-1993

Trail bike 231-1993 Trail bike 231-1993 Trail bike 231-1993 Trail bike 231-1993 Trail bike 231-1993 Trail bike 231-1993 Trail bike 231-1993 Trail bike 231-1993 Trail bike 231-1993 Trail bike 231-1993

LESSON 2

With Crest, this is one bridge you should never have to cross.

Helping to ensure a lifetime of healthy teeth.

LESSON 2

It's a Dash Refill.
You already have the bottle.
You just need the stuff.

The other day I sent my son Max to the store for some Concentrated Liquid Dash.
A real trainer. He brings me home this bottle the likes of which I have never seen before. So I ask,
"Son, what exactly is this? There's no handle, no measuring cup and the bottle is not
even remotely yellow." He says, "It's a Dash® refill. You already have the bottle.
You just need the cleaning stuff. And it costs less!" He made sense.
I can just pour this refill into my Dash bottle. Why pay for another cap or handle?
I'm paying less per load. There's less plastic to get
rid of, and that's better for the environment.
My clothes will still be clean and fresh.
And at this price, nobody but Dash has it.
Wow, Max made sense.
Which tends to frighten me.

Clean Fresh Clothes For About 15¢ A Load.

LESSON 5

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"YOU BET I'M SAVING MONEY THESE DAYS! MY STOCKINGS GIVE ME UP TO
20% MORE WEAR!"
It's worth money to know
PERSPIRATION IS ACID
...IT ROTS STOCKINGS!
ONLY IVORY SNOW combines 2 advantages you'll want in fighting this danger
• Today it's more and more important to defend your precious silk stockings against the daily danger of acid perspiration!
And it's so easy, too, if you simply avoid careless washing methods. Give your stockings a quick rinse, after each wearing, in gentle, thorough-cleansing Ivory Snow suds. You'll find you'll get up to 20% more wear from your silk stockings! Rayon and nylon stockings also last longer when given gentle, daily Ivory Snow care.
But—use only Ivory Snow. For only this different soap combines 2 great advantages (see below). Not a flake, not a powder—Ivory Snow is made in dainty "snowdrops" to explode into suds in 3 seconds—even in cool water. And those rich suds will whisk out dangerous acid perspiration and other soil in a jiffy!
IVORY SNOW IS THE ONLY SOAP THAT OFFERS BOTH THESE ADVANTAGES
1. It's Ivory pure—wonderfully safe for all your fine washables.
2. It's made in tiny, pure-white "snowdrops" that dissolve like a flash in cool water—about 4 times faster than any popular soap in this form.
Miss Ivory Snow says: "Read these 2 points and you will know Why it's best to use Ivory Snow!"
IVORY SNOW
WANT LOVELIER HANDS IN 12 DAYS?
If your hands are red and rough from using one of those strong laundry soaps—change to pure Ivory Snow for dishwashing. It cuts grease as fast as the strongest washday soap. And in just 12 days you'll get softer, smoother hands!
RICH SUDS IN JUST 3 SECONDS—EVEN IN COOL WATER! 99 44/100% PURE

35

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